HOUSING MARKET OUTLOOK
Thunder Bay CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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Housing Markets

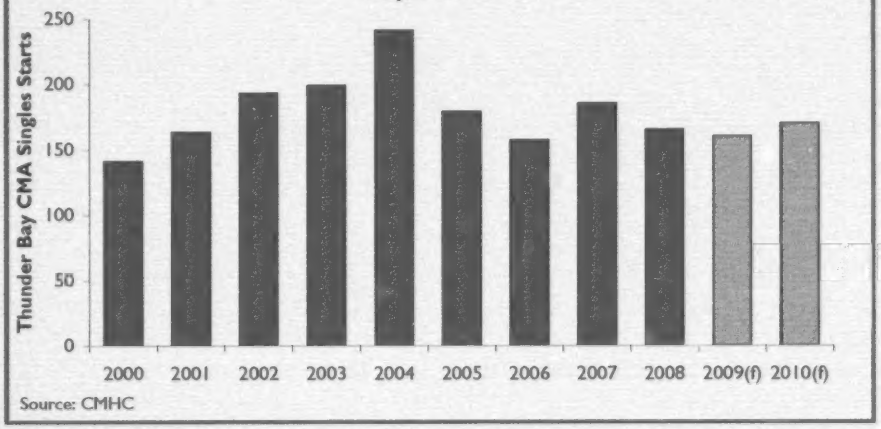
New Home Market

The slackness in the resale market has directly impacted the new home market as has the slowing economy. Single-detached starts will fall to 160 units in 2009 and 170 in 2010, as the market comes more into line with long term demographic requirements. CMHC expects 30 row, condominium and apartment starts in 2009 and another 55 in 2010. Relatively tight rental market conditions and reasonable take up of condominium units will result in some of this activity over the next 18 months.

As Figure 2 indicates, there has been improvement in household incomes in Thunder Bay and with required income being more or less flat, affordability has improved. Next year,

Figure 1

Thunder Bay Singles Starts Match Demographic Requirements



Source: CMHC

[1] The forecasts included in this document are based on information available as of October 1, 2009.

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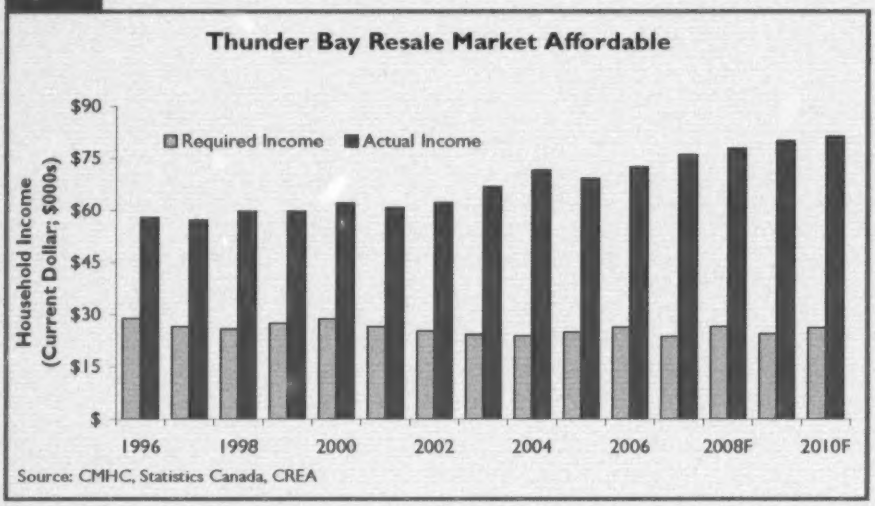
Figure 2



with home prices and incomes rising modestly, homeownership should remain an affordable option and therefore demand should strengthen slightly.

After rising 4.3 per cent and 5.5 per cent respectively in 2007 and 2008, the New Home Price Index for Sudbury-Thunder Bay will rise in 2009 and 2010 but only modestly given the slowdown in demand.

Rental Market

Vacancy rates have come down steadily since 1998 in Thunder Bay while two bedroom rents are the lowest amongst other centres in Ontario. Lack of new supply and healthy demand due to strong enrolment numbers at Lakehead University and Confederation College contribute to the demand picture, not-to-mention in-migration from Northwestern Ontario from retirees and education and/or job seekers. CMHC expects the vacancy rate to fall again in 2009 to 1.6 per cent before increasing to 2.0 in 2010 as resale market activity picks up bringing households out of rental housing into homeownership. Rents should escalate in 2009 and 2010 given continued strong demand for rental accommodation.

Condo Market

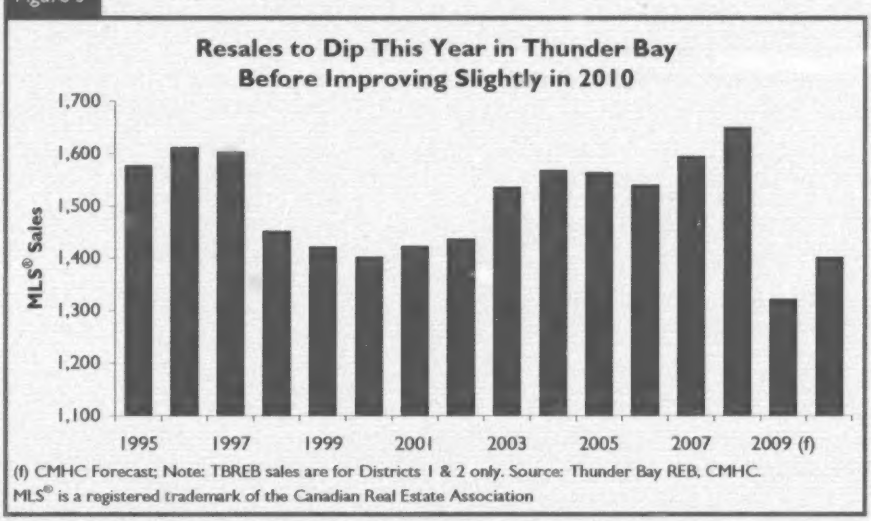
Developers have plans for condominium in 2010 and beyond. A steady supply condominium units coming onto the market over the last twenty years has given Thunder Bay a nice mix of housing. This type and tenure of housing gives the city some allure, especially as empty nesters from the region look to retire to this city. Pricing will be very important as this product is primarily targeted at empty nesters who do not typically want to pay more for a condo than what they obtain from the sale of the family home or other homeownership unit.

Resale Market

After hitting a record high in 2008, Thunder Bay sales have fallen 18 per cent in 2009. July was the only month to register a year-over-year increase in sales. Sales will fall twenty per cent in 2009 and CMHC estimates a relatively small six per cent increase next year to 1,400 sales. Expect a gradually improving economy as low mortgage rates will positively impact the market next year.

The shortage of active listings in the Thunder Bay existing home market will exert pressure on prices. Although sales are still reasonably solid given last year's all-time record in the Thunder Bay market,

Figure 3



the sales to active listings ratio is unquestionably in a strong balanced to seller's market position. The supply-demand relationship will cause price appreciation to continue barring some unforeseen economic shock. Watch for average prices to rise four per cent in 2009 and another four per cent in 2010.

Economy

Employment

Employment will decline 6.3 per cent in 2009 and recover by nearly one per cent in 2010. Employment has decreased in Thunder Bay over the last year primarily due to the downturn in the forest products industry. However, a gradually improving economy should serve to boost employment marginally in 2010. The lowest interest rate in 60 years and the continuation of the fiscal and monetary stimulus package should serve to boost the economy in the coming year.

Nevertheless, consumer bankruptcies are up. Growth in bankruptcies can be linked back to the job losses than have occurred, especially related to forest products weakness and related industries.

While part of the manufacturing economy is performing well, the forest products sector is where the bulk of the goods producing jobs will be lost. Only recovering pulp prices have the potential to directly benefit Thunder Bay. Improving commodity prices will impact the mining sector and those Thunder Bay-based firms that supply that sector.

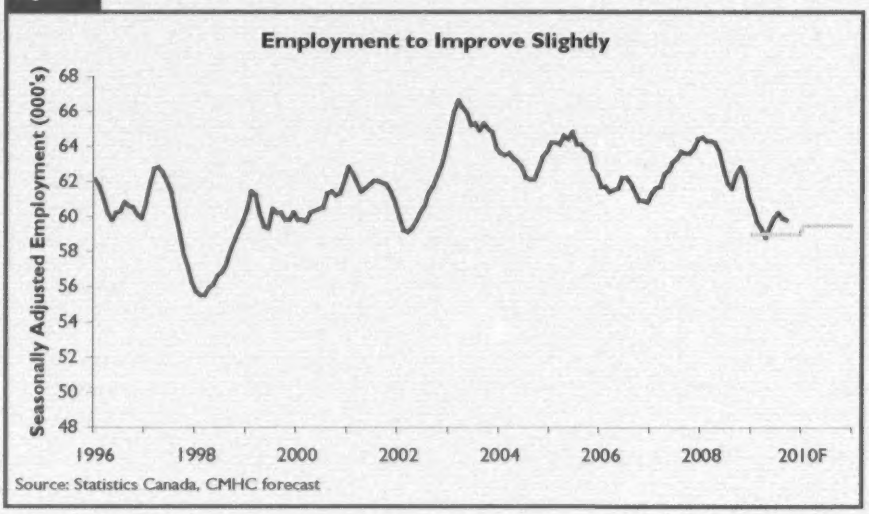
Local development project and infrastructure projects will also boost the local economy and job opportunities.

Despite the shake-out in the forestry sector, average weekly earnings have grown reasonable well this year. Expect earnings growth to moderate for the remainder of the year and finish up three per cent in 2009. They will increase only by 1.5 per cent next year in Thunder Bay.

Migration

The recent trend is indicating that movement into Thunder Bay from Northwestern Ontario accounts for the bulk of the in-migration, with foreign in-migration accounting for the second most populous category. Out-migration en masse due to the forest industry weakness simply has not occurred. Continued in-migration from the region will positively impact housing demand.

Figure 4



Source: Statistics Canada, CMHC forecast

Figure 5

Mortgage Rate Outlook

The Bank of Canada cut the Target for the Overnight Rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. The Bank has committed to keeping this rate at 0.25 per cent through the middle of 2010 unless inflationary pressures warrant an increase.

Mortgage rates have fallen over the course of 2009, but are now expected to remain relatively stable for the rest of the year. Posted mortgage rates will gradually increase through 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate will be in the 3.50-4.25 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.50-6.00 per cent range.

Forecast Summary Thunder Bay CMA Fall 2009							
	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	1,539	1,593	1,649	1,320	-20.0	1,400	6.1
MLS® New Listings	3,015	2,631	2,839	3,200	12.7	3,300	3.1
MLS® Average Price ($)	127,464	129,734	139,301	145,000	4.1	150,750	4.0
New Home Market							
Starts:							
Single-Detached	157	185	165	160	-3.0	170	6.3
Multiples	8	64	2	30	**	54	80.0
Semi-Detached	8	8	2	10 **		10	0.0
Row/Townhouse	0	24	0	0	n/a	0	n/a
Apartments	0	32	0	20	n/a	44	120.0
Starts - Total	165	249	167	190	13.8	224	17.9
Average Price ($):							
Single-Detached	226,633	239,933	244,158	263,691	8.0	274,238	4.0
Median Price ($):							
Single-Detached	215,000	230,000	245,000	259,700	6.0	264,894	2.0
New Housing Price Index (% chg) (Thunder Bay-Sudbury)	1.7	4.3	5.5	1.5	-	2.0	-
Rental Market							
October Vacancy Rate (%)	4.9	3.8	2.2	1.6	-0.6	2.0	0.4
Two-bedroom Average Rent (October) ($)	696	709	719	732	1.8	745	1.8
Economic Overview							
Mortgage Rate (1 year) (%)	6.30	6.90	6.70	4.03	-2.67	3.83	-0.20
Mortgage Rate (5 year) (%)	6.70	7.10	7.10	5.55	-1.55	5.75	0.20
Annual Employment Level	61,500	63,000	63,000	59,000	-6.3	59,500	0.8
Employment Growth (%)	-3.7	2.3	0.0		-6.3		0.8
Unemployment rate (%)	7.5	6.7	5.8	7.1	-	7.0	-
Net Migration [1]	-747	-411	-18	-100 **		100	-200.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2007 and 2008 migration numbers are forecasts

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